

The logo features the word "ANNUAL" in white, 3D-style capital letters. Below it, the word "REPORT" is in large, bold, blue capital letters. A thin red horizontal line passes through the middle of the "REPORT" text. Below "REPORT", the words "Fiscal Year 2000" are written in a smaller, red, sans-serif font.

ANNUAL REPORT Fiscal Year 2000

Financial Performance Report

FINANCIAL PERFORMANCE REPORT

FISCAL YEAR 2000

FY 2000 was a very successful year for the Department in terms of financial management. This section of the report highlights DOL's key financial outcomes, and includes the required elements for Accountability Reporting. As was done in FY 1999, the Annual Performance Report has been combined with the Accountability Report (per the Reports Consolidation Act). The FY 1999 Report was very well received, ranking fifth governmentwide in the Mercatus Center Review, and garnered "Commendable Practice" notations from the Association of Government Accountants in 14 separate areas - more than any of the other eleven Federal Agencies submitting reports for review.

The following section provides legislative reporting and other financial performance information pertaining to:

MANAGEMENT OF DOL'S FINANCIAL RESOURCES

- Legislative Reporting Requirements
- The Chief Financial Officer's Act (CFOA)
- Federal Financial Managers Improvement Act (FFMIA)
- Federal Managers' Financial Integrity Act (FMFIA)
- FMFIA Assurance Statement
- Inspector General's Act Amendments
- DOL financial systems and operations, including
 - Modernization of the Department's Core Accounting System
 - Debt Management
 - Electronic Funds Transfer (EFT)
 - User fees
 - Electronic Data Processing (EDP) Systems
 - Prompt Payment Act
 - Support for the Chief Financial Officers (CFO) Council
- Financial Resources and Results of Operations

FY 2000 ASSISTANT INSPECTOR GENERAL'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

- Principal Financial Statement and Notes
- Required Supplementary Stewardship Information
- Required Supplementary Information

MANAGEMENT OF DOL'S FINANCIAL RESOURCES

The Office of the Chief Financial Officer (OCFO) established four agency strategic goals in FY 1999 to support the goal of maintaining the integrity and stewardship of DOL's financial resources. These are:

- 1) *to provide leadership and advice on financial management matters to the Secretary of Labor, DOL program managers, and the financial community government-wide;*
- 2) *to protect and effectively manage the Department's financial resources;*
- 3) *to assure high quality financial management products and services are delivered to OCFO customers; and,*
- 4) *to recruit, train, and maintain an effective financial management staff.*

Following are some of the highlights and key results in each of these strategic areas:

Leadership

OCFO's goals with regard to financial management leadership are to provide a strategic focus for financial management issues and to influence financial outcomes in a positive manner.

- The Department earned its fourth consecutive unqualified ("clean") audit opinion for consolidated financial statements.
- Through leadership of the CFO Advisory Council and regular consultations with Executive Staff and Administrative Officers, OCFO provided a critical forum for the identification, discussion and resolution of financial issues and concerns.

- OCFO's contribution to strategic planning for financial management provided a balanced view of the strengths and challenges faced by the Department, as envisioned by the Government Performance and Results Act.

Stewardship

The Secretary, the Congress, and the American people must have confidence that Departmental resources are used as intended with the greatest efficiency. OCFO responded well to the extraordinary array of new laws, regulations, policies and procedures that challenge our financial management resources.

- Significant progress was made toward implementation of managerial cost accounting principles and practices in the Department. Efforts are underway in several agencies, supported in part by expert resources from the private sector.
- OCFO took aggressive action to address weaknesses in accounting reconciliations to meet strict new Treasury and OMB requirements.
- The Department improved its performance during FY 2000 with regard to debt referrals and electronic payments. By the end of FY 2000, DOL agencies had referred 92 percent of eligible debt to Treasury, and had reached over 97 percent performance in electronic payments for salaries, travel, and grants.
- OCFO led the production of the second DOL Accountability Report for 2000, with significant improvements in presenting a "balanced scorecard" of successes and challenges.

Products and Services

The OCFO manages and operates the Department's core accounting and payroll systems. Many important enhancements were made to these critical products during the past fiscal year.

- Over 11,300 DOL employees are now reporting their time and attendance electronically, reducing processing costs and providing more timely and accurate information.
- OCFO played a leadership role with OASAM in developing and implementing a new Human Resource and Payroll system in DOL. Phase I implementation occurred in May 1999. Phase II will address integration of a new payroll module that began in January 2001.
- OCFO conducted a requirements analysis of its central accounting system with the support of an outside consultant. The resulting recommendations will provide a blueprint for system investments over the next several years to ensure that DOL maintains its leadership position among federal agencies in this area.

Human Resources Management

- OCFO invested in the development and delivery of innovative professional development events for financial management employees throughout the Department. This included university level courses provided via the Internet and training specifically focused on areas of operational weakness. During FY 2000, the agency contracted with a private vendor to design and deliver web-based training to

OCFO employees for the Department of Labor Accounting and Related Systems (DOLARS) Core and Accounts Payable subsystems.

- OCFO made substantial progress in continuing its Financial Management Careers Program. This initiative, which began in DOL, has expanded to become a governmentwide program during FY 2000.

LEGISLATIVE REPORTING REQUIREMENTS

The Government Management Reform Act authorized the Office of Management and Budget to consolidate into one report a number of statutory reporting requirements. The Department is submitting this report, which encompasses the *FY 2000 Accountability Report and the FY 2000 Annual Performance Report*, under OMB guidelines.

The Chief Financial Officers' Act prescribed the compilation and audit of annual financial statements. In addition to expressing an opinion in the audit on the fair presentation of the principal financial statements, the Department's OIG has other reporting responsibilities under Standards issued by the American Institute of Certified Public Accountants and OMB Bulletin 01-02 *Audit Requirements for Federal Financial Statements*, including the identification of:

Reportable Conditions: Significant deficiencies in the design or operation of internal controls that could adversely affect the Department's ability to record, process, summarize, and report financial data.

Material Weaknesses: Reportable conditions that could result in misstatements in amounts that would significantly affect the financial statements. The FY 2000 DOL audit revealed no material weaknesses.

Compliance Issues: Instances of noncompliance with laws and regulations pertaining to the Department including the financial systems and accounting standards in FFMIA.

The Federal Managers' Financial Integrity Act of 1982 requires the Secretary to report to the President and the Congress on the adequacy of management controls in safeguarding resources. The Act further prescribes the reporting of:

Material weaknesses under Section 2 of the Act. Federal agency heads are required to report management control weaknesses that significantly impair the fulfillment of an agency or component's mission; deprives the public of needed services; or significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets.

System non-conformances under Section 4 of the Act. This reporting requirement has been superseded by requirements to report all instances in which financial systems are not in compliance with the standards prescribed in the Federal Financial Management Improvement Act. These weaknesses are reported whether or not they comprise material non-conformances with financial systems or accounting standards.

The Inspector General Act Amendments of 1988 requires the Department to report on management's efforts to close audits conducted by the OIG. ■

FINANCIAL STATEMENT AUDIT FINDINGS UNDER THE CHIEF FINANCIAL OFFICERS ACT

The following table provides a statistical summary of open audit findings as required under the Chief Financial Officers Act.

AUDIT AREA	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	Total Open
Crosscutting Issues:										
Debt Management							1			1
EDP Controls				2		5	4	19		30
Funds with U.S. Treasury							1		4	5
Accounting for Grants			1	1	1	2	1	7	3	16
Property and Equipment				3						3
Working Capital Fund Cost Allocation	1									1
Performance Measures	1									1
Program Specific Issues:										
Wage and Hour's Back Wage Systems		2				7				9
Wage and Hour CMP Systems		2				4				6
FECA Program			3			1				4
Unemployment Trust Fund			2						4	6
Total Open Recommendations	2	4	6	6	1	19	7	26	11	82

THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA)

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to implement and maintain financial management systems that are in substantial compliance with OMB Circular A-127, JFMIP requirements, Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level. The circular prescribes generally for the system “to process and record


financial events effectively and efficiently and to provide complete, timely, reliable, and consistent information for decision makers and the public.”

Of the 17 DOL financial management systems, the two listed below do not substantially comply with FFMIA. Corrective actions plans are in place to resolve each of these non-compliances. For a detailed description of these non-compliance issues and corrective action plans, refer to the financial management goal (FM1) on page 107 of this report. ■

Financial System	Major Compliance Issues
ESA's Back Wage System	System did not process financial information effectively and efficiently and did not provide complete, timely, reliable, and consistent information.
ESA's Civil Money Penalty System	System failed to process financial information effectively and efficiently and failed to provide complete, timely, reliable, and consistent information.

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) REPORTING

With this unqualified opinion and other information, I can certify with reasonable assurance that, with the exception of the items identified in this report, the Department's systems of accounting and internal controls comply with the provisions of the Federal Managers' Financial Integrity Act.



Alexis M. Herman
Secretary of Labor

Three management control weaknesses, reported under Section 2 of the Act, remain open.

ERISA Audit Process

The Department remains fully committed to working for the improvement of the audit process. Both the General Accounting Office (GAO) and OIG have identified the limited scope of the audit provision of the Employee Retirement Income Security Act (ERISA) as a major program issue, as the Act does not provide adequate coverage for the audit of certain pension plans. In the judgment of the GAO and OIG, enactment of legislation broadening the scope of certain pension plan audit requirements is needed. The issue continues to be reported in the Department's FMFIA report and depends upon Congressional legislative action for resolution.

Occupational Injury and Illness Data

The Occupational Safety and Health Administration (OSHA) is continuing its initiative of a quality control program to monitor employer injury and illness reporting. This will improve OSHA's ability to measure injury, illness and fatality rates; to

target agency interventions on the most hazardous work sites; and to measure program outcomes established under the Government Performance and Results Act (GPRA).

Reconciling Fund Balances with Treasury

The Department agrees that cash reconciliations are necessary and must be performed, at a minimum, on a monthly basis. The OCFO has formed an internal task force dedicated to addressing cash reconciliations departmentwide. This task force has been chartered to ensure that all agencies, including the OCFO, are reconciling their Funds with Treasury balances. In addition, the task force will ensure that there are documented procedures in place for the performance of reconciliations and the preparation of supporting documentation. The procedures will also include a process for continual monitoring of agencies by the OCFO to ensure agencies are reconciling Funds with Treasury and to take appropriate action when it determines reconciliations are not being performed as required. By the end of FY 2001, the Department is confident that all its Funds with Treasury will be fully reconciled.

During FY 2000, the Department reported one material non-conformance with the following recommendations:

Develop and implement a departmental plan to oversee and ensure that agencies comply with the Departmental Security Manual.

During FY 2000, the Department developed and issued a Department Cyber Security Program Plan, Systems Development and Life Cycle Management Methodology, and Computer Security Handbook.

The Cyber Security Program Plan (dated 10/22/99) expanded existing computer security policies and established a risk-based Department program to improve security while fulfilling the cyber security-related requirements of Federal regulations. The plan is a living document that is refined and updated on a regular basis. The plan lays out an integrated set of activities over a 5-year period, and contains an overall schedule that will support budget planning and program execution. The long-term goal of this plan is to provide the Department with a cyber security capability that protects

information in accordance with Federal requirements and DOL mission needs in a cost effective manner. The components of the plan include updating security policy and guidance; publishing the guidance; and the establishment of vulnerability assessment, risk management, contingency planning, and incident reporting and response programs.

The Systems Development and Life Cycle Management (SDLCM) Manual (dated July 2000) serves as the mechanism to assure that developing, modifying, or enhancing systems meet established user requirements and support DOL critical success factors. The manual sets forth a standard and logical process for managing IT system development activities and acquisition approvals that are controlled, measured, documented, and ultimately improved while responding to Federal regulations and statutory requirements. Included in the manual is adherence to security and privacy requirements and change management controls throughout a systems life-cycle.

DOL STATISTICAL SUMMARY OF PERFORMANCE

Number of Material Weaknesses Section 2			
	Reported	Corrected	Pending
Prior Years	54	52	2
1997	0	0	0
1998	0	0	0
1999	0	0	0
2000	1	0	1
DOL Total	55	52	3

Number of Material Nonconformances Section 4			
	Reported	Corrected	Pending
Prior Years	101	101	0
1997	0	0	0
1998	0	0	0
1999	2	2	0
2000	1	0	1
DOL Total	104	103	1

Of the total number corrected, 3 were corrected in 2000.

The Computer Security Handbook provides policies and procedures for (1) performing vulnerability assessments; (2) implementing and monitoring LANs, distributed systems, and mainframe environments; (3) establishment of a Security Management Structure; (4) certification and accreditation of support and application systems; (5) identification of users and authorized access; (6) controls for configuration of security parameters, data files, and software programs; (7) monitoring controls; and (8) implementation of effective security-related personnel policies and procedures.

Agencies are currently in the process of bringing their systems into compliance with the manual and the Computer Security Handbook. In December, 2000, each agency completed preparation of their agency-level computer security program plan. The agency plans establish the critical path and major milestones needed to reach full compliance with Departmental guidance. The OCIO will continue to monitor the agencies' progress to ensure compliance with their individual plans and overall Department guidance. ■

Section 2 - Material Weaknesses			
Title	Year First Reported	Target Date for Correction in 1999 FMFIA Report	Current Target Date for Correction
ERISA Audit Process	1989	Dependent on action by Congress	Dependent on action by Congress
Occupational Injury and Illness Data	1993	1998	2002
Reconciling Fund Balances with Treasury	2000	2001	2001

Section 4 - Material Nonconformance			
Title	Year First Reported	Target Date for Correction in 1999 FMFIA Report	Current Target Date for Correction
Department Wide System Security	2000	2001	2001

MANAGEMENT REPORTING UNDER THE INSPECTOR GENERAL ACT AMENDMENTS OF 1988

The Inspector General Act Amendments of 1988 requires explanations for all audit reports with recommendations open for more than one year. DOL management and audit communities agree that some of these audit resolutions will require several years to complete the corrective action. As of 9/30/2000, 110 audit reports have been open for over one year. The total value of open audits of \$58.3 million covers 437 separate recommendations.

The table demonstrates that most of the reportable audits and recommendations that are over one year old are not under the direct control of and cannot be closed by the

Department. Auditees have certain rights to appeal audit decisions made by the Office of the Inspector General (OIG), including appeals to an Administrative Law Judge or a Federal Circuit Court of Appeals. Audits are not considered closed simply because the claim is being appealed and sent forward for further action. DOL agencies and the OIG jointly manage and update an audit tracking system where the current status of each open audit is maintained. Final closure of the audit is determined only by final decisions of the reviewing officials. Many of these decisions take years before being rendered and the audit closed.

The most significant of the non-monetary open audit findings are discussed in this report. A listing of all open audits is available upon request from the Department's Office of the Chief Financial Officer. ■

1999 Audit Summary as of 9/30/00 (\$ in thousands)

Affected amounts in 110 audits comprised of 437 recommendations over one year old	\$58,345
Less:	
Value of 108 open recommendations under administrative law or Federal Court appeal	\$32,445
Funds Put to Better Use	\$9,407
Amounts referred or in process of referral to the Department of Treasury	\$8,634
Balance of 87 open audits	<u>\$7,859</u>

DOL FINANCIAL SYSTEMS AND OPERATIONS

Modernization of the Department's Core Accounting System

The OCFO is continuing to work with DOL agencies in modernizing the Department's core accounting system. OCFO representatives and contract staff consulted extensively with agency financial managers to gain input on the makeup of the new system. During FY 2000, OCFO began the requirements identification and development of a financial data store, which will facilitate faster and easier access to accounting information. The entire modernization effort will follow a phased implementation timeline over the next three to five years.

Debt Management

The OCFO monitors the debt management program of the Department. The debt management operations of OSHA, MSHA, ESA, and ETA make up nearly all the receivable activity of the Department. The larger program agencies manage their own receivables, working directly with their clients and vendors. For many of DOL's program agencies, this is a natural extension of their day to day work with the organizations they regulate.

DOL debt management accounts for a relatively small part of our financial management activity, as the department does not operate loan or other commercial programs. The majority of debts managed by the Department relate to the assessment of fines and penalties in our enforcement programs. With the implementation of the Debt Collection Improvement Act of 1996 (DCIA), DOL elected to cross-service all

delinquent debts with the Department of Treasury. By the end of FY 2000, 92 percent of eligible delinquent debts had been referred to Treasury for collection.

The table provides information on total debts for the Department as reported to the Department of the Treasury in the Report on Receivables for FY 2000:

Delinquent Debt Data Departmentwide Totals for Fiscal Year 2000 (in thousands)	
Delinquent Debt (1-180 days)	\$20,268
Delinquent Debt (181 + days)	\$61,792
Total Collections	\$118,360
New Receivables	\$141,076
Eligible to be Referred	\$63,815
Debts Referred to Treasury During FY 2000	\$58,992

Electronic Fund Transfer (EFT)

DOL made over 97 percent of salary, awards, travel, and miscellaneous payments electronically in FY 2000. Electronic vendor payments increased by six percent over the FY 1999 rate which is a direct result of corrections made to deficiencies in the Department's accounts payable system. Electronic travel and miscellaneous payments increased by one percent.

The Department continues to lag behind government averages due to the low EFT participation and heavy volume in ESA's medical and benefits programs. These FECA programs account for over 80 percent of DOL's total payment volume. The FECA medical payments system is undergoing redesign to permit EFT payments and is scheduled for completion in FY 2002. Also,

marketing campaigns are underway in ESA to promote the use of EFT to FECA beneficiaries. Overall, the Department's FY 2000 EFT performance of 41 percent represents a 5 percent decrease from the FY 1999 rate. This change is directly attributable to the increase in ESA's annual volume of non-EFT medical payments.

DOL EFT Payments				
	FY97	FY98	FY99	FY00
Administrative Vendors	49%	53%	58%	64%
Travel & Miscellaneous	23%	83%	98%	99%
Salary & Awards	91%	96%	97%	97%
ESA Programs	26%	23%	32%	27%
Total	35%	36%	46%	41%

Source: DOL DOLAR\$ and Treasury FMS EFT reports.

User Charges - Policy Review Process

In accordance with the CFO Act and OMB Circular A-25, departmentwide guidance has been developed to establish policy, procedures, and responsibility for implementing and managing user charges in DOL. The guidance includes the biennial review requirements of the CFO Act. A review of user fees, conducted by DOL agencies in FY 2000, resulted in adjustments to some user fee pricing rates.

Electronic Data Processing (EDP)

To gain assurance that financial data produced by EDP systems are reliable, the OIG reviewed the OCFO's DOLAR\$ as well as DOL agency systems. The Office of the Chief Information Officer, the OCFO, and the major agencies are addressing each of these findings in a departmentwide effort to update system security plans. For more information, see the

Assistant Inspector General Report, beginning on page 123.

Prompt Payment Act

The Prompt Payment Act requires Executive agencies to pay commercial obligations within discreet time periods and to pay interest penalties when those time constraints are not met.

During FY 2000, 95.3 percent of 154,040 total DOL payments subject to the Act were paid on time. Of \$838,802,212 in gross payments, \$219,074 (approximately .026 percent) was paid in interest fees and penalties.

Support for the Chief Financial Officers Council

The Department takes pride in contributing to effective financial management governmentwide. DOL staff participate in intergovernmental workgroups to resolve issues common among Federal agencies. The Department's CFO chaired the CFO Council's Human Resources Committee, which has developed products to help financial managers improve the professional development of their workforce, use new strategies to resolve recruitment and retention issues, and improve the qualification requirements for workers. Other OCFO officials are actively involved in the Federal Accounting Standards Advisory Board, the Federal Credit Policy Working Group, and other inter-agency regulatory and policy-making bodies that affect financial management in the Federal government. ■

FINANCIAL RESOURCES AND RESULTS OF OPERATIONS

The accompanying principal financial statements summarize DOL's financial position, net cost of operations and changes in net position, provide information on budgetary resources and financing, and present the sources and disposition of custodial revenues for fiscal year 2000. Highlights of the financial information presented in the principal statements are shown below:

Net Cost of Operations

- The total and net operating costs of DOL's major programs are shown on the Statement of Net Costs. The total cost of DOL's major programs during FY 2000 was \$35.4 billion. These costs were offset by matching program revenues earned of \$2.5 billion. This results in a net cost of operations of \$32.9 billion.
- DOL reported costs under five major programs. Income maintenance costs of \$28.1 billion and employment and training costs of \$5.6 billion represented 79 percent and 16 percent, respectively, of DOL's total costs of \$35.4 billion during FY 2000. Benefit payment expenses of \$23.6 billion, incurred under DOL's unemployment (\$21.1 billion) and workers compensation (\$2.5 billion) programs, comprised 67 percent of total costs and 84 percent of income maintenance costs.
- Total costs by major program were reduced by revenues earned to arrive at net program costs. DOL's earned revenues in FY 2000 were \$2.5 billion, consisting primarily of reimbursements from Federal agencies to DOL's Unemployment

Trust Fund and Special Benefit Fund, for unemployment benefits or workers' compensation benefits paid by these funds to the agency's employees. Included in the net cost of operations were net costs not assigned to programs of \$43.6 million, less than two tenths of one percent of DOL's net operating costs.

Net Financing Sources

- DOL's net cost of operations must be funded by financing sources other than earned revenues. DOL reported other financing sources of \$41.4 billion on the Statement of Changes in Net Position for FY 2000. These net financing sources exceeded DOL's \$32.9 billion net cost of operations by \$8.5 billion. Employer taxes of \$27.1 billion comprised over 66 percent of DOL's net financing sources during FY 2000.

Financial Position

- DOL's total assets were \$103.2 billion at the end of FY 2000. Entity assets of \$102.9 billion comprised over 99 percent of total assets. Unemployment Trust Fund investments in U. S. Government securities totaling \$86.4 billion represented 84 percent of DOL's total assets.
- DOL reported liabilities of \$9.2 billion against these assets at the end of FY 2000 and a residual net position of \$94.0 billion. Of DOL's total liabilities, \$7.1 billion (77 percent) were not covered by budgetary resources. Repayable advances of \$6.7 billion, payable by DOL's Black Lung Disability Trust Fund to the U.S. Treasury, comprised 73 percent of DOL's total liabilities and 94 percent of

liabilities not covered by budgetary resources at the end of FY 2000.

- DOL's net position increased from \$87.6 billion in FY 1999 to \$94.0 billion in FY 2000, an increase of \$6.4 billion (7 percent). This increase in net position was attributable to an \$8.5 billion increase in cumulative results of operations and by a \$2.1 billion decrease in DOL's unexpended appropriations. Cumulative results of operations were increased primarily by the \$8.8 billion net operating results of the Unemployment Trust Fund, which was offset by operating losses in DOL's Black Lung Trust Fund. These changes in effect reduced DOL's net operating results for FY 2000 to \$8.5 billion. ■

U.S. Department of Labor

Office of Inspector General
Washington, D.C. 20210*ASSISTANT INSPECTOR GENERAL'S REPORT***TO THE HONORABLE
ELAINE L. CHAO
SECRETARY OF LABOR**

The *Chief Financial Officers Act of 1990* (CFO Act) requires agencies to report annually to Congress on their financial status and any other information needed to fairly present the agencies' financial position and results of operations. To meet the CFO Act reporting requirements, the United States Department of Labor (DOL), a Department of the United States Government, prepares annual financial statements, which we audit.

The objective of our audit is to express an opinion on the fair presentation of DOL's Fiscal Year 2000 principal financial statements. Our objective also is to obtain an understanding of the Department's internal control and test compliance with laws and regulations that could have a direct and material effect on the financial statements.

We have audited the consolidated balance sheet of the DOL as of September 30, 2000, and the consolidated statements of net cost, changes in net position, budgetary resources, financing, and custodial activity for the year then ended. These financial statements are the responsibility of the DOL's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial statements contained in

Government Auditing Standards, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 01-02, Audit Requirements for Federal Financial Statements. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

**RELATIONSHIP TO THE SINGLE
AUDIT ACT**

The financial statements for the year ended September 30, 2000, include:

- costs for grants, subsidies, and contributions primarily with various state and local governments and nonprofit organizations in the amount of \$8.1 billion;
- costs for unemployment benefits incurred by state employment security agencies in the amount of \$21.1 billion;
- state employer tax revenue of \$19.7 billion;
- net receivables for state unemployment taxes, reimbursable employers and benefit overpayments of \$.7 billion; and

- reimbursements from state, local, and nonprofit reimbursable employers in the amount of \$1.0 billion, for unemployment benefits paid on their behalf.

Our audit included testing these costs, financing sources, and balances at the Federal level only. Pursuant to a mandate by Congress, the examination of these transactions below the Federal level is primarily performed by various auditors in accordance with the Single Audit Act of 1984, as amended, and OMB Circular A-133. The results of those audits are reported to each Federal agency which provides direct grants, and each Federal agency is responsible for resolving findings for its awards.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements referred to above present fairly, in all material respects, in conformity with generally accepted accounting principles:

- the assets, liabilities, and net position of the Department of Labor as of September 30, 2000; and
- the net cost, changes in net position, budgetary resources, reconciliation of net cost to budgetary resources, and custodial activity for the year ended September 30, 2000.

OTHER ACCOMPANYING INFORMATION

Our audit was conducted for the purpose of forming an opinion on the FY 2000 principal financial statements of the DOL. The accompanying financial information discussed below is not a required part of the principal financial statements:

The required supplementary information (included in the FY 2000 Annual Performance Report and in the Management of DOL's Financial Resources and Required Supplementary Information sections of the Financial Performance Report) and the Required Supplementary Stewardship Information of the Financial Performance Report are required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the information. However, we did not audit the information and express no opinion on it.

The information in the appendices of the DOL's Performance and Accountability Report is presented for purposes of additional analysis. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, accordingly, we express no opinion on it.

REPORT ON INTERNAL CONTROL

In planning and performing our audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 01-02. We did not test all internal controls relevant to operating

objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters, discussed in the following paragraphs, involving the internal control and its operations that we consider to be reportable conditions. However, none of the reportable conditions is believed to be a material weakness.

In addition, we considered the DOL's internal control over Required Supplementary Stewardship Information by obtaining an understanding of the agency's internal controls, determining whether they had been placed in operation, assessed control risk, and performed tests of controls as required by OMB Bulletin 01-02. The objective of our audit was not to provide assurance on these internal controls. Accordingly, we do not provide an opinion on such controls.

Finally, with respect to internal control relating to performance measures included in the FY 2000 Performance Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions as required by OMB Bulletin 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls. However, we noted certain deficiencies in internal control over reported performance measures, discussed below that, in our judgment, could adversely affect the agency's ability to collect, process, record, and summarize performance information and report performance measures in accordance with management's criteria.

REPORTABLE CONDITIONS

Current Year Reportable Conditions

Unreconciled Differences with Treasury

The Department continues to have unreconciled cash differences between the DOLAR\$ general ledger and Treasury. Although the unreconciled

differences are not material to the financial statements, they amounted to over \$44 million at year-end. The most serious reconciliation problems exist in ETA, where approximately \$7.8 billion in grant payments were made through the Department of Health and Human Services' Payment Management System (HHS-PMS). ETA did not perform reconciliations at the appropriation level throughout FY 2000 (where HHS-PMS activity is reported). At year-end, ETA had \$13 million of net unreconciled differences at the appropriation level.

In addition, ineffective reconciliation procedures resulted in \$31 million of the \$44 million year-end cash adjustment related to payroll activity. We also found \$10.6 million of suspended payroll transactions that had been outstanding for more than 90 days. Because these amounts have not been identified and cleared, one or more appropriation accounts are misstated.

We recommend that the Chief Financial Officer ensures that: 1) agencies identify and clear differences at the document level at least monthly; 2) reconciliation procedures effectively address departmental funds processed through non-DOL ALCs (e.g., HHS, USDA, Treasury, etc.); 3) reconciliation worksheets are prepared in compliance with Treasury and OCFO guidance; and 4) the resolution of differences is adequately supported by source documentation.

The Department agrees that cash reconciliations are necessary and must be performed on a monthly, if not daily, basis. The OCFO has formed a task force to address cash reconciliations departmentwide. This

task force will ensure that all agencies, including the OCFO, comply with the Treasury directive on reconciling Funds with Treasury balances. Also, the OCFO will work with the grant agencies and HHS to refine the reports to facilitate reconciling the Department's records with HHS records.

DOLAR\$ Grant Transactions Not Reconciled to HHS-PMS

ETA uses the HHS-PMS to process grant payments for the majority of their grants (approximately \$7.8 billion in FY 2000). Accordingly, PMS is the initial system of record for grant payment transactions and it is essential that all PMS transactions are accurately recorded in the DOLAR\$ general ledger, and that the two systems reconcile.

Our audit disclosed that ETA does not reconcile PMS transactions, by document, to those recorded in DOLAR\$. Significant differences exist in obligation and payment amounts recorded on the two systems for ETA's grants.

Other DOL granting agencies performed detailed reconciliations of PMS and DOLAR\$ activity during FY 2000, and noted events that caused DOLAR\$ to be misstated. For example, they noted PMS transactions that were posted twice in DOLAR\$; an entire quarter of costs that was recorded on PMS but not on DOLAR\$; selected days of payment activity that were recorded on PMS but not on DOLAR\$; PMS system errors which PMS subsequently corrected but were not corrected in DOLAR\$; and transactions that suspended during the PMS/DOLAR\$ interface that were not properly recorded when cleared from

suspense, or remained suspended. These events indicated systemic problems that affect all granting agencies using PMS. Accordingly, it is critical that ETA initiate a reconciliation process for their PMS grants to ensure that each grant document recorded in DOLAR\$ accurately reflects a complete record of payments made to the grantee. It is also critical that ETA reconcile grant obligations to ensure that obligational authority released in PMS is accurate and in agreement with DOLAR\$.

Differences between PMS and DOLAR\$ payment activity can also indicate that DOLAR\$ Funds with Treasury accounts are not in balance with the Treasury's TFS 6653. We reported in a separate finding that there are unreconciled differences in the Funds with Treasury account for ETA's appropriations, totaling approximately \$13.5 million. These differences were calculated by management but were not identified or corrected to the respective grant documents. Rather, adjustments were recorded to unrelated documents set up specifically for this purpose.

We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that ETA implement policies requiring routine reconciliations of grant transactions recorded in DOLAR\$ to those recorded in PMS. We also recommend that the Chief Financial Officer ensure that changes are made to DOLAR\$ and/or the Sync Report so that the report provides a more useful and reliable tool for management.

ETA agreed that DOLAR\$ and the HHS-PMS system should be in agreement and periodically reconciled to validate that they are in agreement.

The OCFO agreed to work with the grant agencies and HHS to refine existing reports as well as develop new reports to facilitate reconciling the Department's records with HHS records.

ETA Obligations Inappropriately Moved to Subsequent Fiscal Year

We analyzed selected documents which reflected large differences in payment activity between DOLAR\$ and PMS grant activity, and noted several 1993 JTPA grants where a portion of the obligation, cost and payment activity had been moved from one fiscal year to the next. According to ETA, these grants were closed (and the funds had expired) prior to the grantee drawing down their final payment. To close the grants, ETA reduced obligations and costs in DOLAR\$ to equal the total payments recorded (in DOLAR\$) at the time. When the grantee subsequently drew the funds from PMS (on the 1993 grant), ETA set up a 1994 grant obligation in DOLAR\$ so that the system would accept the draw down. As a result, PMS reflects the final payment totaling over \$4.5 million as an FY 1993 obligation, cost and payment but DOLAR\$ reflects this as an FY 1994 obligation, cost and payment.

These practices are not in compliance with appropriation law (U.S.C. Title 31, Chapter 15, Sections 1552 and 1553). Appropriation law allows adjustments to closed years, however, the adjustments must be made to the current year (in this case FY 2000). In addition, adjustments exceeding \$4 million require approval from the head of the agency. ETA inappropriately recorded the adjustments to FY 1994 rather than FY 2000 and did not receive the proper approvals. In addition, ETA did not

have the proper obligating documentation to support the FY 1994 obligation.

This situation was caused by the fact that grants were not appropriately or timely closed for FY 1993. ETA waited until the funds canceled and adjusted the documents so that the documents were in balance for obligations, costs and payments. These documents reflected more costs than payments, and actual grant costs were reduced in order to balance the grant. Had the closeout process been performed more timely, ETA would have had the time to notify the grantees to draw down the funds so that the grants would be in balance, rather than reducing costs and obligations to an incorrect amount.

We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that ETA establish controls (including written policies and procedures) which will ensure that adjustments to obligations for closed accounts are posted only to current year appropriations and are properly authorized by the head of the agency when the amount of the adjustments exceeds the dollar threshold established in the regulations.

ETA is considering actions to be taken to alleviate this concern. A decision will be made on a course of action to be taken and the action will be implemented during the fourth quarter of FY 2001.

State Unemployment Benefit Payments Understated

ETA did not perform routine and timely reconciliations of state drawdowns reported on ETA Form 2112 and drawdowns reported by

Treasury. As a result, state advances were overstated and benefit expenses were understated in the Department's fiscal year ended September 30, 1999 financial statements. Net benefit expenses continued to be recorded and used to adjust gross advances during FY 2000. During FY 2000, the OCFO reconciled state reported drawdowns to Treasury reported drawdowns. As a result of this reconciliation, it was found that starting in January, 1999, a number of states under-reported unemployment benefit payments. During the FY 2000 year end financial statement process, advances and benefit expense balances were adjusted by \$288 million and \$403 million for FY 1999 and FY 2000, respectively.

In the publication *Standards for Internal Control in the Federal Government*, the General Accounting Office describes control activities as policies, procedures, techniques, and mechanisms that enforce management's directives. They include a wide range of diverse activities such as approvals, authorizations, verifications, **reconciliations**. . . .[Emphasis added.]

Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

We recommend that the Chief Financial Officer and the Assistant Secretary for Employment and Training ensure that:

1) Reconciliations using FMRS and Treasury data are performed timely and include comparisons of drawdowns for state benefits in addition to drawdowns for Federal benefits; 2) ETA monitors the reconciliation process on a quarterly basis and provides the OCFO status reports on the results of the reconciliations; 3) OCFO documents procedures used to verify that state reported data recorded in DOLARS through the FMRS is accurate; and 4) OCFO evaluates analytical procedures used to verify state UI advance, accounts payable, and benefit expense data entering DOLARS.

ETA will issue instructions to the states on proper reporting of benefit payments, monitor and follow up on state reconciliations of FMRS and Treasury data quarterly, provide the OCFO quarterly status reports, and request state reconciliation of all benefits reported. The OCFO will include procedures in their compilation guide to be followed in case the FMRS reconciliation fails which will include analytical procedures to be used to examine the state data.

Prior Year Reportable Conditions

EDP Controls

DOL Needs to Strengthen Controls to Protect Its Information

DOL's systems environment is exposed to various weaknesses in management's procedures for assessing risks, implementing an effective security framework, periodically monitoring its framework, timely resolving issues identified or reported upon, and effectively implementing and maintaining its access controls.

The Department has taken several key steps in strengthening its information systems security architecture during the last year. Specifically, the Department has issued its Critical Infrastructure Protection Plan (CIPP), the DOL Cyber Security Program Plan and the Computer Security Handbook (CSH). The CSH is to provide direction and guidance for the agencies to complete system security plans and risk assessments for those systems identified as critical assets, major applications or general support systems in the Department's CIPP. The Department is working with the agencies to strengthen the Department's information systems architecture by providing training and guidance.

DOL Needs to Fully Implement a Systems Development Life Cycle Methodology

Changes to DOL's systems were not properly controlled in the areas of software change management, software file access and system documentation. The Department has issued its Systems Development Life Cycle (SDLC) Manual and agencies are updating systems to comply with the manual. The SDLC serves as the mechanism to ensure that developing, modifying, or enhancing systems meet established user requirements and support DOL critical success factors.

DOL Needs to Complete and Fully Test Its Plan(s) for Maintaining Continuity of Operations

DOL has several weaknesses that would impair the Department's ability to effectively respond to a disruption in business operations as a result of a disaster or another event causing an extended service interruption. The general areas where

weaknesses were noted are in risk assessments that have not been finalized and contingency planning.

The Department has established a multi-year strategy and program management plan for its Continuity of Operations (COOP). As articulated in the COOP, the Department must have a viable capability that ensures: the emergency delegation of authority; safekeeping of vital resources, facilities, and records; improvisation or emergency acquisition of the resources necessary for business resumption; capability to perform work at alternate work sites until normal operations are resumed; and the ability to be operational at alternate facilities, with or without warning within a specified amount of time after activation.

Additionally, the Department must also have a Continuity of Government (COG) Plan for discharging its role in maintaining the integrity of critical constitutional functions of the Government in the event of a threat to national security. Also, the Department issued guidance to the agencies to address service continuity in its Computer Security Handbook.

Accounting for Grants

Grant accounting has the following deficiencies:

- Transfers of JTPA funds between programs were not monitored by ETA for compliance with the regulations, and were not accounted for in ETA's accounting records.
- We continued to note unsupported adjustments recorded for ETA's grants and contracts.

- We continued to note delinquent grantee cost reporting and untimely recording of costs for ETA's grants and contracts.
- ETA does not have sufficient procedures for identifying and correcting grant accounting errors on a timely basis.
- ETA does not have written grant accounting procedures.
- Grant accruals were not recorded on a periodic basis, rather, they were recorded at year end only.
- OSHA was not consistently reconciling grant transactions processed by PMS.

Management is in the process of completing a new grant cost system that will resolve several of the cost reporting issues and has agreed that there is a need to reconcile PMS and DOLARS transactions.

Wage and Hour's Back Wage System

As we have noted for several years, the Wage and Hour Division (WHD) does not maintain sufficient control over information recorded in the back wage subsidiary system (Back Wage Collection and Disbursement System - BCDS), and certain policies and practices exercised by the regional offices preclude the use of this system as a reliable subsidiary for back wages.

In FY 2000, management took steps to improve the financial accounting for back wages with the design and implementation of a new system, the BCDS 2000. Nonetheless, significant misstatements in both accounts receivable and cash balances still existed at year-end.

Management is continuing to add functions, improvements, and

oversight to the BCDS 2000 system on a quarterly basis. The effects will be assessed in the FY 2001 audit.

Wage and Hour's Civil Money Penalty (CMP) System

In our FY 1993 audit, we recommended that WHD install a CMP tracking system which would function as a subsidiary for CMP activity and related receivable balances.

In FY 2000, we noted improvements in the documentation supporting computed assessments and accounts receivable balances. However, system weaknesses continue to exist in the areas of transaction cutoff, the accounting period close out process and effective controls ensuring that recorded information is accurate, complete and therefore reliable. Furthermore, there has been a lack of effective implementation of applicable accounting standards with respect to the recording of revenues as of the date the claim became valid and enforceable pursuant to SFFAS 7 and the proper recording of interest charges.

Management is in the process of redesigning portions of the CMP system and adding oversight procedures. The effects will be assessed in the FY 2001 audit.

Performance Measures

We previously reported the need for the Unemployment Insurance Service to verify the accuracy of non-Federal entity data reported to DOL and used for performance measurement. A verification process has been piloted and full implementation is planned in FY 2001.

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We noted other matters involving the internal control and its operations that will be reported to the management of DOL in a separate letter.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

The management of the DOL is responsible for complying with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain laws and regulations specified in OMB Bulletin 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the DOL.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin 01-02, which are described below.

Adjustment to Grant Obligations

Our FY 2000 audit disclosed that ETA reduced FY 1993 grant obligations and moved these funds into FY 1994, which was not in accordance with Appropriation law. While Appropriation law allows adjustments to closed years, the

adjustment must be made to the current year (in this case FY 2000).

Debt Management

ESA is not in substantial compliance with the *Debt Collection Improvement Act of 1996*. Delinquent receivables for Back Wages, Civil Monetary Penalties and the Black Lung Disability Trust Fund were not submitted to Treasury, or were not submitted timely, as required by the Act.

Grant Closeout Process

JTPA grants were not closed out in accordance with applicable regulations and departmental policy. While ETA has improved the grant closeout processes, there is still a large backlog of grants and contracts which need to be closed and the JTPA closeout process remains untimely.

For laws and regulations tested, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards* or OMB Bulletin 01-02, our tests of compliance disclosed no instances of noncompliance other than those mentioned in the preceding paragraph.

COMPLIANCE WITH FFMIA

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803 (a) requirements.

Our FY 1999 audit reported that five subsidiary DOL financial

management systems did not substantially comply with one or more of the three requirements discussed in the preceding paragraph. The results of the current year audit disclosed that two systems remain in noncompliance:

- Wage and Hour's Back Wage system, and
- Wage and Hour's Civil Money Penalty (CMP) system.

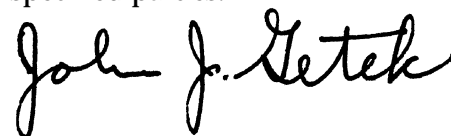
The Back Wage and CMP systems are not in substantial compliance with the requirements of OMB Circular A-127 and the CMP system is also not in substantial compliance with applicable Federal accounting standards.

Management expects the implementation of a new Back Wage system and the redesign of portions of the CMP system, which should bring the systems into FFMIA compliance, to be completed during FY 2001.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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This report is intended solely for the information and use of the management of the U.S. Department of Labor, the Office of Management and Budget, and Congress and is not intended to be and should not be used by anyone other than these specified parties.



JOHN J. GETEK
Assistant Inspector General for Audit
February 15, 2001